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C O N F I D E N T I A L SECTION 01 OF 03 IRAN RPO DUBAI 000043

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TAGS: [ECON](#) [ENGR](#) [EPET](#) [PGOV](#) [IR](#)

SUBJECT: TIMING OF IRAN'S GASOLINE RATIONING TAKES ALL BY SURPRISE

REF: A.) RPO Dubai 0015; B.) RPO Dubai 0037

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REASON: 1.4 (d)

1.(C) Summary: In a surprise move, the oil ministry announced the evening of June 26 that gasoline rationing would begin in Iran at midnight, with a limit for private citizens of 100 liters of gasoline per month. According to reports by AFP and BBC, the announcement sparked protests, particularly by angry youths, and resulted in long lines at gas tanks, as well as fires at two gas stations in Tehran. Deputy Majles speaker Bahonar said on Iranian TV that the reason that rationing was implemented without warning was for safety concerns; hoarding gasoline would be a potential fire risk. Iranian analysts agreed the Iranian government had "no choice but to" implement rationing for economic and security reasons, given the huge sums Iran was spending on gasoline subsidies and Iran's vulnerability to a gasoline embargo, but predicted corruption would result. Last month, the government raised gasoline prices by 25% in an attempt to reduce consumption. It will be telling how the government reacts to these protests over rationing, how long the protests last, and how rationing will impact public opinion towards the government. End Summary

2.(C) In a move that surprised the Iranian population and Iran analysts, the oil ministry announced with only a few hours notice on June 26 that gasoline rationing would begin at midnight. While the government had been making noises about implementing rationing, the start date has been delayed several times, and it was not clear whether the government would implement it all, given public resistance.

Risky political decision

3.(C) In response to the announcement of rationing, angry Iranian "youths" reportedly attacked a petrol station in the Pounak area of northwest Tehran, burning a car and pumps, witnesses said. The same youths threw stones and shouted slogans denouncing President Ahmadi-Nejad. An Iranian journalist told AFP that another gas station in the south of Tehran was attacked in the Azadi area. Anti-riot police were called in to disperse the demonstrators, according to AFP. BBC reported that violence broke out in nine separate areas of Tehran, it is assumed that the petrol station fires are included in the alleged "areas" of violence. One Iranian professor told

IRPoffs recently that a primary motivation for the rounding up of "thugs" over the past few months was in preparation for the implementation of rationing. These "thugs" are reportedly those people suspected by police of being likely to lead street rioting.

4.(C) While foreign press has reported on the alleged fires and protests by Iranian youth in reaction to the rationing, Iranian news agencies have mainly focused on the details of the announcement itself. The sole exception seen so far is Iranian state radio which noted long lines of cars waiting to fuel-up prior to the midnight deadline. Its account de-emphasized any violence and said car owners were filling up their tanks, emptying them into portable containers, and getting back in line. The report also complained of incessant honking of car horns. Other Iranian news reports mention long lines at fuel pumps in Tehran and elsewhere, but little else regarding public reaction.

First price hike; now rationing

5.(U) On May 22, the government raised the price of gasoline by 25% -- although gasoline is still cheaper than water in Iran -- to try to stem high levels of consumption. It also implemented use of smartcards required for purchasing gasoline (reftels). The government initiated limited rationing June 14, limiting government vehicles to 10 liters of gasoline a day. Full rationing was supposed to be implemented at the same time in May but was delayed several times. The last official statement indicated late July, preempted by the June 26 surprise announcement.

6.(U) Iranian state television announced that the following quotas would be in place:

- Personal vehicles: 100 liters of gasoline per month
- Government vehicles: 300 liters per month.
- Taxis: 800 liters per month.

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- Personal people carriers: 600 liters per month.
- Agency petrol vehicles: 450 liters a month.
- Driving school vehicles: 450 liters a month.
- Ambulances: 450 liters a month.
- Peykan [Old Hillman cars assembled in Iran] minivans and "Mazda": 1,000 liters a month.
- Toyota 1600 and Mazda 2000: 450 liters a month.
- Nissan and Zamyad and tractors of Saypa variety, trucks, minivans, buses, minibuses, trailers and auto-camping vehicles: 600 liters a month.
- Diplomatic vehicles: 600 liters a month.

7.(U) The Islamic Republic News Agency (IRNA) reported that Oil Minister Kazem Vaziri-Hameneh was summoned to the Majles to answer questions on the rationing. Quoting Vaziri-Hameneh, IRNA explained that the system would initially be in place for three months, after which time the government would evaluate rationing. Deputy Majles speaker Mohammed Reza Bahonar said on Iranian TV that more lead-time was not given as there were fears that people might stockpile petrol and cause safety concerns. Rooz Online reported a week earlier that over 200 fires had broken out in Tehran over the last week alone allegedly caused by people hoarding gasoline in their homes in anticipation of rationing.

Wise economic decision

8.(S) In the run-up to the rationing, IRPoffs discussed the petrol rationing system, in separate meetings, with an Iranian economist, a consultant who worked on the smartcard system for gasoline rationing, and a Tehran-based political analyst. All agreed that maintaining current levels of gasoline subsidies was not viable, costing the government approximately \$30 billion, reportedly almost half of its overall expenditures for

subsidies. Iran reportedly spends \$70 billion annually on subsidies, or a third of its GNP. While Iran is the fourth largest oil exporter, it is the second largest gasoline importer, on a net volume basis.

9.(S) An Iranian economist said he is generally opposed to rationing because it often leads to corruption and smuggling, but he admitted that "something must be done" to curb Iranian government spending on gasoline subsidies. Prior to the June 26 announcement, the economist claimed Ahmadi-Nejad did not "have the stomach" to implement a rationing system. "If he did," continued the economist, "it would outweigh all the damage he's done to the economy over the last two years." Unfortunately, he said, rationing would likely place a much higher burden on law-abiding citizens, but only be a nuisance for others. He claimed that 70,000 people have already been identified in Tehran as needing "extra" gasoline as they are involved in the public transportation sector, i.e. taxis, buses, etc. He clearly believed that a large portion of the individuals should not qualify for such a program. (Note: many Iranians use their cars as unofficial taxis as a second job to make ends meet. Endnote) The economist added that despite the fact that smartcard usage was "enforced" as of May 22 (reftels), there are still pumps that do not enforce the card rule, and it is easy to use someone else's card.

10.(S) A Tehran-based political analyst claimed that Ahmadi-Nejad had no choice but to implement a rationing system. The analyst said that for both economic and security reasons, a rationing system must be enforced. He claimed that the amount of money that the government spends annually on gasoline subsidies equals or exceeds the budget of the Ministry of Education and could easily pay the salary increases that Iranian teachers' associations demanded during strikes this year. Iran's representative to OPEC Hossein Kasempour Ardebili publicly laid out Iran's security issues regarding gasoline, saying June 19 that Iran is concerned about its vulnerability to potential US action to cut off its gasoline supplies. Ardebili told Sharq newspaper that Iran needs to adopt appropriate measures to address this concern, saying "the domestic consumption, for example, must be lowered as much as possible."

11.(U) Implementing a rationing system without a scheme in place to meet excess demand would cause a black market to spring up overnight, claimed journalist Hamed Qoddusi in a June 14 Sharq article. Qoddusi advocated private-sector control of a secondary-market that would meet gasoline needs - at a market determined price - should individuals require additional gasoline above and beyond the rationed allotments.

Technology behind rationing

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12.(S) Two years and \$80 million dollars later, Iran has a system in place to facilitate the rationing of gasoline, said an Iranian economist. The technology used to set up the system, however, is fairly outdated, alleged a consultant who claimed to have worked on the project. He was doubtful the smartcard could be used for complex pricing schemes. The consultant said that the "data dumps" from the separate pump stations to the main database are not on-line, but only done via satellite up-link periodically. However, the consultant claimed that the Iranian government deserves some credit for installing the technology throughout the entire country, even in the most rural of areas. Furthermore, consumers will be able to set up debit accounts linked to their smartcards to pay for gasoline purchases. He also noted that there exists the potential that intelligence services will now be able to track people's movements by tracking use of their smartcards (Note: Iran does not currently have credit cards. Endnote).

13.(C) Comment. Iranians in Dubai have heard that "the capital city is shut down today," July 27, because of the reaction to rationing, but we do not know yet whether this is an

exaggeration. Negative public reaction to rationing, particularly as other economic indicators worsen, was to be expected, and is probably the main reason the government has put off this decision for years. It is likely that the threat of a foreign embargo on gasoline imports is the primary motivator for swallowing the poison now, particularly for a president who promised to economic justice. The immediate issue to follow is how efficiently the government puts down protests, and by what means, as well as whether the themes of any further protests are generically anti-rationing or become more focused on the president. At a recent university protest against Ahmadi-Nejad, the government took no action initially but arrested the offenders several months later.

14.(C) Comment continued: In any case, gasoline rationing is a healthy and overdue step for Iran's economy, whatever the motivation. It will not come without a cost, however. A gasoline ration brought about by the Iranian government as opposed to by the international community will likely increase the government's unpopularity; a rise in gasoline prices triggered by a foreign-imposed boycott could, conversely, boost solidarity with the government.

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